

Message Text

LIMITED OFFICIAL USE

PAGE 01 BELGRA 04367 01 OF 02 051424Z

46

ACTION XMB-07

INFO OCT-01 EUR-25 ISO-00 INT-08 AID-20 CIAE-00 COME-00

EB-11 FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 OPIC-12

SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 L-03 H-03 DRC-01 SAJ-01 /158 W

----- 035152

P 051152Z SEP 74

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC PRIORITY 459

INFO AMCONSUL ZAGREB

LIMITED OFFICIAL USE SECTION 1 OF 2 BELGRADE 4367

E.O. 11652: N/A

TAGS: EFIN, BEXP, YO

SUBJ: COMPETITIVE EXIMBANK FINANCING NEEDED FOR MAJOR CONTRACTS

PASS EXIM BANK

1. SUMMARY: UNLESS EXIMBANK CAN PROVIDE COMPETITIVE FINANCING, U.S. FIRMS RISK LOSS OF MAJOR CONTRACTS WITH TWO LEADING YUGOSLAV ENTERPRISES AND ALSO FACE DININISHED PROSPECTS FOR FUTURE BUSINES WITH THESE ENTERPRISES. IN SEPARATE APPROACHES LARGE CONGLOM- ORATE UNIS AND STEEL PRODUCER RMK ZENICA HAVE WARNED THE EMBASSY THAT REVISED TERMS OF EXIM BANK COMMIT- MENTS BLOCK THEIR PLANS TO DEAL WITH US SUPPLIERS. MORE THAN THE IMMEDIATE U.S. VALUE OF ABOUT \$46 MILLION IS AT STAKE IN THESE PROJECTS. THE UNIS PROJECT OFFERS A BREAKTHROUG TO US INDUSTRY WHICH HAS YET TO OBTAIN A PLACE IN THE YUGOSLAV ENTERPRISE'S \$500 MILLION EX- PANSION PLANS FOR 1970-80. THE RMK PROJECT AFFORDS U.S. INDUSTRY THE OPPORTUNITY TO REMAIN ACTIVELY EN- GAGED AT ZENICA TO COMPETE AGAINST THE USSR FOR ELEMENTS OF A GIANT IRON MINE AND STEEL MILL COMPLEX.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BELGRA 04367 01 OF 02 051424Z

EMBASSY RECOMMENDS EXIMBANK URGENTLY REVIEW BOTH

CASES. END SUMMARY

2. UNIS: DIRECTOR GENERAL UNIS AND PROVREDNA BANKA SARAJEVO OFFICIAL CAME TO EMBASSY FROM SARAJEVO AUGUST 30 TO EXPRESS SHOCK AT REVISION OF EXIMBANK PRELIMINARY COMMITMENT NO. 2738 TO PROVREDNA BANKA FOR \$45-50 MILLION UNIS COLD PRODUCTS ROLLING MILL. FOREIGN CONTENT WILL BE ABOUT \$20 MILLION. VISITORS STATED THAT EXIMBANK, IN EXTENDING COMMITMENT BEYOND JULY 31, IMPOSED TERMS WHICH WOULD ADD UP TO \$5-MILLION TO PROJECT COST. TERMS NOW PROVIDED ARE (ORIGINAL TERMS IN PARANTHESIS): 20 PERCENT (10 PERCENT) DOWN PAYMENT ON US VALUE, 30 PERCENT (45 PERCENT) DIRECT LOAN AT 8 PERCENT (6 PERCENT RAISED TO 7 PERCENT) INTEREST, ONE PERCENT (0.5 PERCENT) GUARANTEE FEE ON REMAINING 50 PERCENT (45 PERCENT), AND ELIMINATION OF ANY GUARANTEE ON LOCAL COSTS(15 PERCENT ORIGINALLY GUARANTEED).

3. EMBOFFS EXPLAINED NEED FOR REVISED EXIMBANK POLICY. UNIS DIRECTOR GENERAL REMAINED UNIMPRESSED. HE SAID NEW TERMS SHOULD APPLY TO NEW CASES. CONDITIONS IN THIS CASE SHOULD REMAIN UNCHANGED TO HONOR AN EXISTING COMMITMENT.

4. NOTING THAT UNIS HAD NEVER NEGOTIATED A MAJOR PROJECT WITH A US FIRM, DIRECTOR GENERAL REMINDED EMBOFFS THAT EMBASSY HAD ENCOURAGED CONTACTS WITH US SUPPLIERS. UNIS HAD FOUND PRELIMINARY US TECHNICAL PROPOSALS, PRICES, AND FINANCING ATTRACTIVE. UNIS HAD NOT OBJECTED THAT EXIMBANK RAISED INTEREST RATE FROM SIX TO SEVEN PERCENT IN EXTENDING FIRST EXPIRATION DATE OF PRELIMINARY COMMITMENT. UNIS HAD BEEN PREPARED TO PROCEED WITH PROJECT BY JULY 31 BUT HAD TO REQUEST ANOTHER EXTENSION BECAUSE US OFFERS WERE NOT READY. TO ACCOMMODATE US FIRMS, UNIS POSTPONED ISSUANCE OF TENDER AND EVEN TAILORED IT TO US PROPOSALS.

5. DIRECTOR GENERAL EXPECTED FINAL TECHNICAL DETAILS FROM THREE US GROUPS BY SEPTEMBER 30. UNIS, HE STATED, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BELGRA 04367 01 OF 02 051424Z

WAS ALREADY COMPLETING EXAMINATION OF TECHNICAL PROPOSALS FROM KRUPP AND UNSPECIFIED ITALIAN COMPANY AND BRITISH FIRM (WITH ECGD FINANCING). UNIS WOULD OPEN PRICE OFFERS ON OCTOBER 17 AND HAD ANTICIPATED AWARD TO A US GROUP BY OCTOBER 31.

6. CORNERSTONE LAYING SCHEDULED NOVEMBER 29, DIRECTOR GENERAL SAID, AND ANY DELAY WOULD EMBARRASS

UNIS MANAGEMENT. UNLESS ORIGINAL EXIMBANK TERMS WERE RETAINED, HOWEVER, OR AN "ACCEPTABLE SOLUTION" FOUND, UNIS WOULD HAVE TO RE-EVALUATE CAREFULLY US OFFERS WITH OTHER BIDS TO COMPARE NOT ONLY TECHNICAL ASPECTS, BUT PRICE, INCLUDING ALL-IMPORTANT FINANCING TERMS.

7. COMMENT: UNIS HAS REMAINED ORIENTED TOWARD EUROPEAN COMPANIES IN ITS SEVERAL MAJOR PROJECTS WITH FOREIGN FIRMS. ITS ONLY ARRANGEMENT WITH US INTERESTS HAS BEEN JOINT VENTURE WITH GERMAN SUBSIDIARY OF NCR. UNTIL THIS SETBACK UNIS DID NOT MASK PREFERENCE TO AWARD THIS CONTRACT TO US INDUSTRY (PROBABLY, EMBASSY INFERRED), TO GROUP WHICH INCLUDES VIM UNITED). UNIS DECISION WILL INFLUENCE ITS WILLINGNESS TO DEAL WITH US COMPANIES ON FOUR MORE PROJECTS SCHEDULED FOR NEAR FUTURE, AS WELL AS YUGOSLAV ENTERPRISE'S ENTIRE 1970-80 \$500 MILLION DEVELOPMENT PLAN.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BELGRA 04367 02 OF 02 051440Z

46

ACTION XMB-07

INFO OCT-01 EUR-25 ISO-00 INT-08 AID-20 CIAE-00 COME-00

EB-11 FRB-03 INR-11 NSAE-00 RSC-01 TRSE-00 OPIC-12

SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 L-03 H-03 DRC-01 SAJ-01 /158 W

----- 035280

P 051152Z SEP 74

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC PRIORITY 460

INFO AMCONSUL ZAGREB

LIMITED OFFICIAL USE SECTION 2 OF 2 BELGRADE 4367

8. RMK ZENICA - COMPETITIVE EXIMBANK FINANCING IS ALSO THE KEY TO WHETHER US STEEL OBTAINS THE CONTRACT FOR A WIRE DRAWING PLANT FOR THE LEADING STEEL PRODUCER RMK ZENICA. ABOUT \$26 MILLION IN

FOREIGN CONTENT INVOLVED IN PROJECT, FOR WHICH EXIMBANK ISSUED PRELIMINARY COMMITMENT NO. 2463, EXPIRATION DATE MARCH 31, 1974, TO SOCIETY NATIONAL BANK OF CLEVELAND.

9. RMK FOREIGN REPRESENTATIVE PROGRES STATES THAT A MARCH 29, 1974 TELEX TO EXIMBANK APPARENTLY REPORTED AGREEMENT WITH US STEEL AND REQUESTED FINAL EXIMBANK APPROVAL. REQUIRED DETAILS WERE NOT SUBMITTED, HOWEVER. EMBASSY HAS NO RECORD OF ANY DISCUSSION ABOUT WIRE DRAWING MILL WITH EITHER RMK OR PROGRES AT THAT TIME. A TOP RMK MANAGER TOLD EMB-OFF ON ORIENTATION VISIT TO ZENICA IN JUNE THAT FINAL REVIEW OF PROJECT HAD LEFT RESERVATIONS OVER PROFIT MARGIN OF PROPOSED PRODUCTION. MANAGER SAID SPECIFICATIONS WERE BEING MODIFIED TO ALTER PRODUCT MIX. HE SATED, PERHAPS CONVEYING PROGRES' MISUNDERSTANDING, THAT EXIMBANK FINANCING ARRANGEMENTS WERE IN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BELGRA 04367 02 OF 02 051440Z

ORDER.

10. MODIFICATION NOW COMPLETE AND RMK APPEARED READY SIGN CONTRACT WITH US STEEL UNTIL PROGRES OFFICIAL BROUGHT BACK NEW FINANCING TERMS FROM EXIMBANK. EXIMBANK PROJECT OFFICER REPORTEDLY SUGGESTED THAT RMK SHOULD THINK OF 20 PERCENT DOWN, 30 PERCENT EXIMBANK DIRECT LOAN AT 8 PERCENT INTEREST, AND REMAINING 50 PERCENT GUARANTEED BY EXIMBANK FOR ONE PERCENT FEE. (ORIGINAL TERMS WERE 10 PERCENT DOWN, 45 PERCENT DIRECT LOAN AT 7 PERCENT AND REMAINDER GUARANTEED FOR 0.5 PERCENT FEE).

11. RMK REGARDS THIS SUGGESTION AS DISTINCTLY UNCOMPETITIVE WITH A SOUND PROPOSAL BY BRITISH FIRM GKN CONTRACTORS. BRITISH PROPOSAL INCLUDES ECGD TERMS (15 PERCENT DOWN AND 85 PERCENT FINANCED AT INITIAL 7.5 PERCENT INTEREST). RMK IS SERIOUSLY RESTUDYING THE GKN OFFER.

12. COMMENT: FINANCING WILL GOVERN THE DECISION IF RMK CONFIRMS THAT BRITISH PROPOSAL TECHNICALLY EQUAL. US STEEL, ACCORDING TO PROGRES, SEEKING COMPETITIVE EXIMBANK TERMS. ASIDE FROM THE IMMEDIATE VALUE OF THIS PROJECT, EXIMBANK SHOULD BE AWARE OF THE NEED TO KEEP US INDUSTRY PRESENT AT ZENICA TO COMPETE AGAINST THE USSR, IN PARTICULAR, FOR FUTURE BUSINESS. RMK IS NOW WORKING ON PLANS FOR A GIANT IRON MINE AND 2 TO 2.5 MILLION TONE CAPACITY STEEL MILL COMPLEX AT PROJEDOR. KOPPERS COMPANY OF

PITTSBURGH AND THE SOVIETS WERE COMMISSIONED TO
CARRY OUT FEASIBILITY STUDIES.

13. RECOMMENDATIONS: EMBASSY RECOMMENDS EXIMBANK
URGENTLY RECONSIDER BOTH CASES. YUGOSLAV FIRM PROGRES
(INTERPROGRES IN NEW YORK) HAS BEEN REPRESENTING
UNIS AND RMK ZENICA TO EXIMBANK. EMBASSY BELIEVES
UNIS AND PROVREDNA BANKA WOULD ACCEPT EXIMBANK
ENCOURAGEMENT TO VISIT WASHINGTON FOR DIRECT DIS-
CUSSION OF THE "ACCEPTABLE SOLUTION" THAT WILL
PROTECT AND STRENGTHEN US POSITION WITH THIS ENTER-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BELGRA 04367 02 OF 02 051440Z

PRISE. IN REGARD TO RMK, EMBASSY HOPES EXIMBANK WIL
WORK WITH US STEEL AND PROGRESS TO PROVIDE FINANCING
COMPETITIVE WITH BRITISH TERMS.
MILLER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, IRON, BANK LOANS, CONTRACTS, BUSINESS FIRMS, INDUSTRIAL PLANTS, STEEL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 05 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: shawdg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BELGRA04367
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740246-0563
From: BELGRADE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740974/aaaackhq.tel
Line Count: 244
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION XMB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 03 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 JUL 2002 by shawdg>; APPROVED <04 MAR 2003 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COMPETITIVE EXIMBANK FINANCING NEEDED FOR MAJOR CONTRACTS PASS EXIM BANK
TAGS: EFIN, BEXP, YO, US, UR, XMB
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005